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DPD-3278-59

15 May 1959

MEMORANDUM FOR THE RECORD

SUBJECT : Rates and Pricing Formula 1 Jan.1959 -  
30 June 1959, Lockheed Aircraft Corporation,  
Contracts SP-1917 and SP-1918

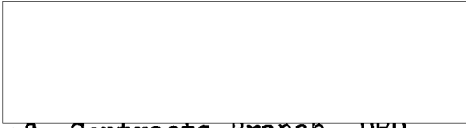
1. The basic labor rates and overhead rates have audit approval. The only rate in question is C&A. The Company, on 3 February 1959, proposed C&A at .83¢, revised this on March 25 to .80¢ and on 24 April, to .79¢. The Auditor considers .767 an Air Force rate, as reasonably protecting the Contractor as well as the Government.

2. The Contractor has orally indicated and the Air Force Auditor has agreed that fixed rates negotiated for the two periods in calendar year 1958 were lower than experienced.

3. The projected Navy rate for LAC for the current period is .768¢ for C&A and \$2.998 for overhead. Navy subtracts all overhead disallowances from the C&A rate. Without prolonged negotiations the Contractor voluntarily proposed a rate of \$2.96 for overhead which was .038¢ less than the Navy proposed rate. This disallowed amount, when added to the proposed Air Force C&A rate of .767¢, results in a total of .805¢ as compared to LAC's proposed C&A rate of .79¢.

4. The Contractor has consistently been cooperative in past negotiations, has agreed to three reductions in the current proposed C&A rate, effected substantial savings from previous target prices, met delivery schedules in a timely matter, and has been very cooperative in all contractual relationships. In view of the reasons set forth in this paragraph and the finding in Paragraphs 2 and 3 above, the Contracting Officer feels that the proposed C&A rate of .79¢ is fair and reasonable and in the best interests of the Government. Accordingly, Amendments have been prepared against SP-1917 and SP-1918 which reflect fixed rates for the first 6 month period of calendar year 1959.

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Chief, Contracts Branch, DPD

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DPD-DD/P:HL:pf  
Distribution:  
✓SP-1917 (Prop.Sec.)  
SP-1918 "  
Chrono

*SECRET*

#438

5 May 1959

Dear Dan:

Reference the current effort to negotiate overhead rates with Burbank, information was received by phone this date from the Resident Auditor regarding the contractor's C & A rate, as follows:

1. Contractor's gross rate for 1958, before adjustment was .905.
2. Rate fully agreed on both sides in negotiation last week at Dayton is .688.
3. Item in dispute is Management incentive compensation in amount of .0179. This apparently will go to BCA for decision. If allowed it would be an addition to .688 or a total of .7059. The general position at Burbank is not to allow this item.
4. Rate at end of March, 1958 was .81. Trend to date, 1959 is downward, as follows:

January	85.7
February	82.1
March	81.
Average, 3 months	83.1
5. Although this rate is down .074 compared to average for year 1958, C & A rate usually goes up at year end. This is affected by such items as other income and adjustments -- Project abandonment, interest and miscellaneous income -- and practically not predictable.
6. Amount of disallowance for year 1958 was in the range of .20 to .21. The resident auditor does not feel that the disallowance will drop below .12 to .14 range.
7. Rates experienced to date indicate the contractor is starting off in 1959 approximately the same as in 1958. The contractor is presently increasing its engineering staff. This together with

Page 2

its new subsidiaries and other business such as the Monorail in Seattle indicate that the 1958 rate should sustain itself.

8. The Resident Auditor mentioned two new subsidiaries and a new division which are now operating -- probably one of these is related to the Monorail effort. He has not yet investigated C & A effect, but it would appear that at least some of the top layer C & A would apply.
9. Conclusion: The contractor appears reasonably well protected by the C & A rate offered. (.767)

Sincerely,



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DDP-2871-59  
 COPY 1 OF 4  
 April 24, 1959

To: Contracting Officer, Contract SP-1917

Subject: Proposed Pricing Formula for the Period  
 1 January thru 30 June 1959

Ref: Letter dated March 25, 1959, from [redacted] to  
 Contracting Officer, Contract SP-1917, same subject

Concurrent with our submission of revised T & M Rates for Contract SP-1918, we are submitting revised pricing formula rates to be used in pricing calls during the period 1 January thru 30 June 1959. The proposed pricing formula rates submitted herein are intended to supersede those submitted per our letter dated 25 March 1959. The pricing formula rates proposed are as follows:

Contract Rates

Labor:

Design Engineer	\$5.16
Shop	3.01
Flight Test Mechanic	3.52
Flight Test Engineer	5.75
Salaried Engineers & Shop	
Technical Personnel	4.88
Pilot	8.20
Overhead	2.96
C & A Expense	.79
Profit	9 $\frac{1}{2}$ %

To the extent that Call work is performed away from our plant, our proposed priced exhibits will also include, in addition to the above rates, appropriate amounts for transportation, per diem, flight bonus and overtime premium on direct labor hours, in accordance with Contractor's established policies.

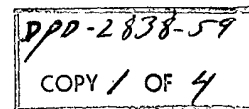
If you concur with the foregoing pricing formula for the period set forth, please prepare at your earliest convenience the necessary contract amendment to make it effective.

Very truly yours,

[redacted]

*Amend no 5  
 SP-1917*

22 April 1959



To: Contracting Officer, SP-1917 and SP-1918

Subject: C&A Rate for Present Period

Answering the specific question you raised in discussion here to-day, a report was prepared by our company budget and forecast people approximately April 13 which projected a net C&A rate for NAVY of .768. It should be noted that the same report projected a net engineering rate for Navy of 2.998. (You may recall that we have mentioned to you before the fact that the Navy system is different since they choose to reflect all disallowances in C&A and therefore do not take disallowances out of engineering overhead.)

Under all the circumstances, we propose \$.79 as the fair and reasonable settlement of the C&A rate for the present period.

Very truly yours,



2.998  
2.42  
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3.8

.768  
768  
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800

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March 25, 1959

DDO-913-8

COPY 1 OF 4

To: Contracting Officer, Contract SP-1917

Subject: Proposed Pricing Formula for the Period  
1 January thru 30 June 1959

Concurrent with our submission of revised T & M Rates for Contract SP-1918, we are submitting revised pricing formula rates to be used in pricing calls during the period 1 January thru 30 June 1959. The proposed pricing formula rates submitted herein are intended to supersede those submitted per our letter dated 3 February 1959. The pricing formula rates proposed are as follows:

Contract Rates

Labor:

Design Engineer	\$5.16
Shop	3.01
Flight Test Mechanic	3.52
Flight Test Engineer	5.75
Salaried Engineers & Shop Technical Personnel	4.88
Pilot	8.20

Overhead	2.96
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C & A Expense	.80
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Profit	9 $\frac{1}{2}$ %
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To the extent that Call work is performed away from our plant, our proposed priced exhibits will also include, in addition to the above rates, appropriate amounts for transportation, per diem, flight bonus and overtime premium on direct labor hours, in accordance with Contractor's established policies.

If you concur with the foregoing pricing formula for the period set forth, please prepare at your earliest convenience the necessary contract amendment to make it effective.

Very truly yours,

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DPD-1006-59  
Copy 3 of 6

10 February 1959

**MEMORANDUM FOR: Audit Liaison Officer**

**SUBJECT : Lockheed Aircraft Corp. Burbank, California**

1. On 9 February 1959 we gave you copies 2 and 3 of two letters dated 3 February 1959 (DPD-0971-59 & DPD-0972-59) from the subject Company.

2. One letter covers their proposed pricing formula under Contract SP-1917 and the other their T&M rates under Contract No. SP-1918. SP-1917 formula is for the period 1 January to 30 June 1959. The T&M rates are for the period 29 December 1958 to 28 June 1959.

3. It is requested that your comments and/or approval be furnished regarding these proposals. If possible we would like to negotiate these rates with LAC at the time of our next visit, 2 March 1959.

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DPD-DD/ [ ] arp  
Distr. [ ]  
Orig. [ ]

[ ]  
Contracting Officer

- 2. [ ]
- 3. - SP-1917 w/cyl of DPD-0971-59
- 4. - SP-1918 w/cy 1 of DPD-0972-59
- 5. - [ ] w/cy 4 of ea. DPD
- 6. - Chrono

**SECRET**

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3 February 1959

DPD-0971-59  
COPY 1 OF 4

To: Contracting Officer, SP-1917

Subject: Proposed Pricing Formula for Period 1 January to 30 June 1959

As required, we submit below the proposed pricing formula to be used in pricing calls during the period 1 January to 30 June 1959. The rates for labor and overhead, etc., used herein are the same as those proposed for T & M Contract SP-1918 per our letter dated 3 February 1959. The pricing formula rates proposed are:

	<u>Contract Rates</u>
Labor:	
Design Engineer	\$5.16
Shop	3.01
Flight Test Mechanic	3.52
Flight Test Engineer	5.75
Salaried Engineers & Shop Technical Personnel	4.88
Pilot	8.20
Overhead	3.05
C & A Expense	.83
Profit	9 $\frac{1}{2}$ %

To the extent that call work is performed away from our plant, our proposed priced exhibits will also include, in addition to the above rates, appropriate amounts for transportation per diem, flight bonus and overtime premium on direct labor hours, in accordance with Contractor's established policies.

If you concur with the foregoing proposed pricing formula for the period set forth, please prepare at your earliest convenience the necessary contract amendment to make it effective.

Very truly yours,



*void  
See SP 19-2183-59  
25 Jan 59*

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